

Home repair loans to low income homeowners. A nonprofit organization that provides interest-free home repair loans in a badly deteriorated urban residential area to low-income homeowners who are unable to obtain loans elsewhere qualifies for exemption under section 501(c)(3) of the Code as operated exclusively for charitable purposes.

Advice has been requested whether the nonprofit organization described below, which otherwise qualifies for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code of 1954, is operated exclusively for charitable purposes.

The organization was created to promote the rehabilitation of a badly deteriorated residential area within a large city. The median income level within the area is lower than the median income level of other sections of the city. In furtherance of its purpose, the organization provides small, short-term, interest-free loans to homeowners in the area. Homeowners use the loans to make repairs to their homes that are necessary to meet local housing code regulations. In order to obtain a loan from the organization, homeowners must qualify under low income standards as determined by an appropriate government agency and show that they are unable to obtain a loan elsewhere. The organization periodically reviews the work on the repairs to assure that the funds are used for the stated purpose.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable purposes.

Section 1.501(c)(3)-1(d)(2) of the Income Tax Regulations defines the term 'charitable' as used in section 501(c)(3) of the Code as including the relief of the poor and distressed.

Situation 1, Rev. Rul. 70-585, 1970-2 C.B. 115, holds that an organization that rehabilitates homes for sale to low income families who cannot qualify for any type of mortgage qualifies for exemption because it is relieving the poor and distressed.

By providing interest-free home repair loans to low income homeowners under the circumstances described above, the organization is relieving the poor and distressed. Accordingly, the organization is operated exclusively for charitable purposes and is exempt from Federal income tax under section 501(c)(3) of the Code.

Even though an organization considers itself within the scope of this Revenue Ruling, it must file an application on Form 1023, Application for Recognition of Exemption, in order to be recognized by the Service as exempt under section 501(c)(3) of the Code. The application should be filed with the District Director of Internal Revenue for the district in which the principal place

of business or principal office of the organization is located.  
See sections 1.501(a)-1 and 1.508-1(a) of the regulations.